



**The Importance of Culture in effective
Corporate Governance 21st October
2020**

**Presented by Dr Caesar Mwangi
CEO ICEA LION Holdings Ltd**

Road Map



- Governance, Ethics, Culture
- Why (we must care!)
- Some reflections
(International and local)
- Understand culture link to
Governance
- Some examples
- Some suggestions



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Africa

Source: CIA Factbook
Simran Khosla/ GlobalPost

Africa

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- Africa**
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Simran Khosla/ GlobalPost

WHY WE CARE

The challenge in Africa:
Poverty amidst plenty

ICAEW CHART OF THE WEEK
7 JANUARY 2019



A global economy of £69tn in 2019

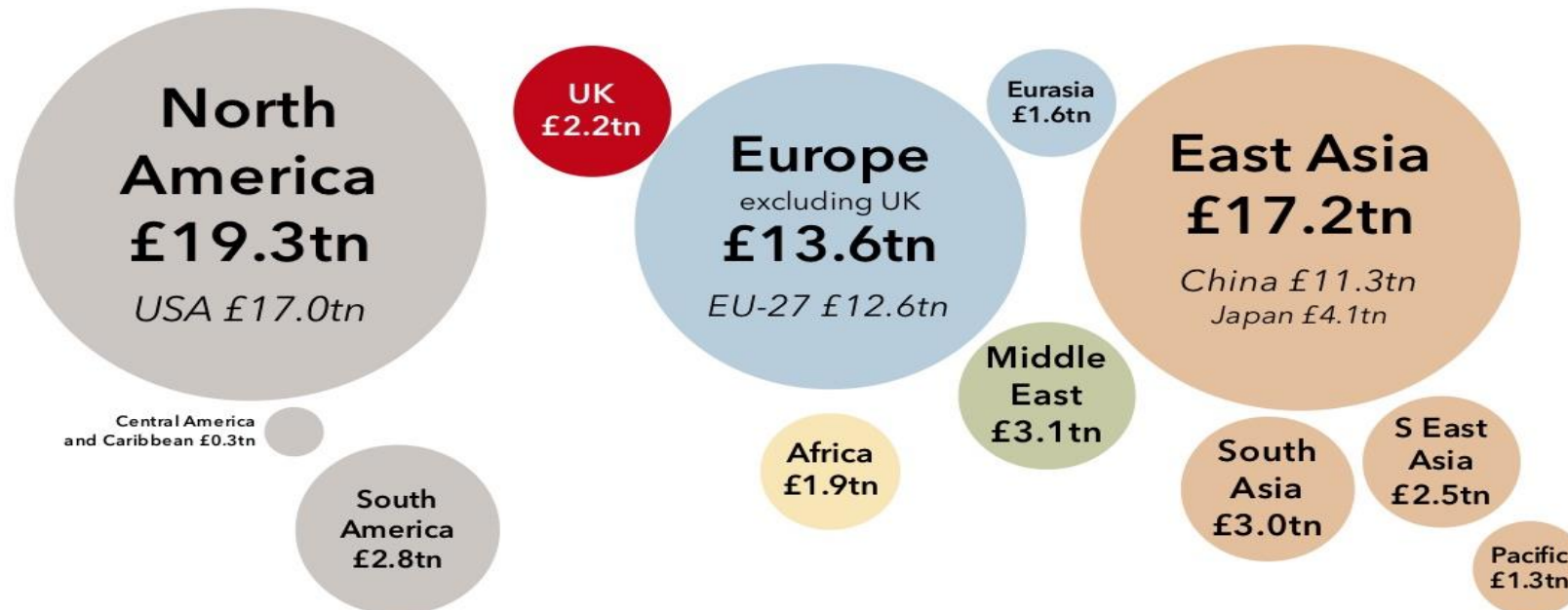
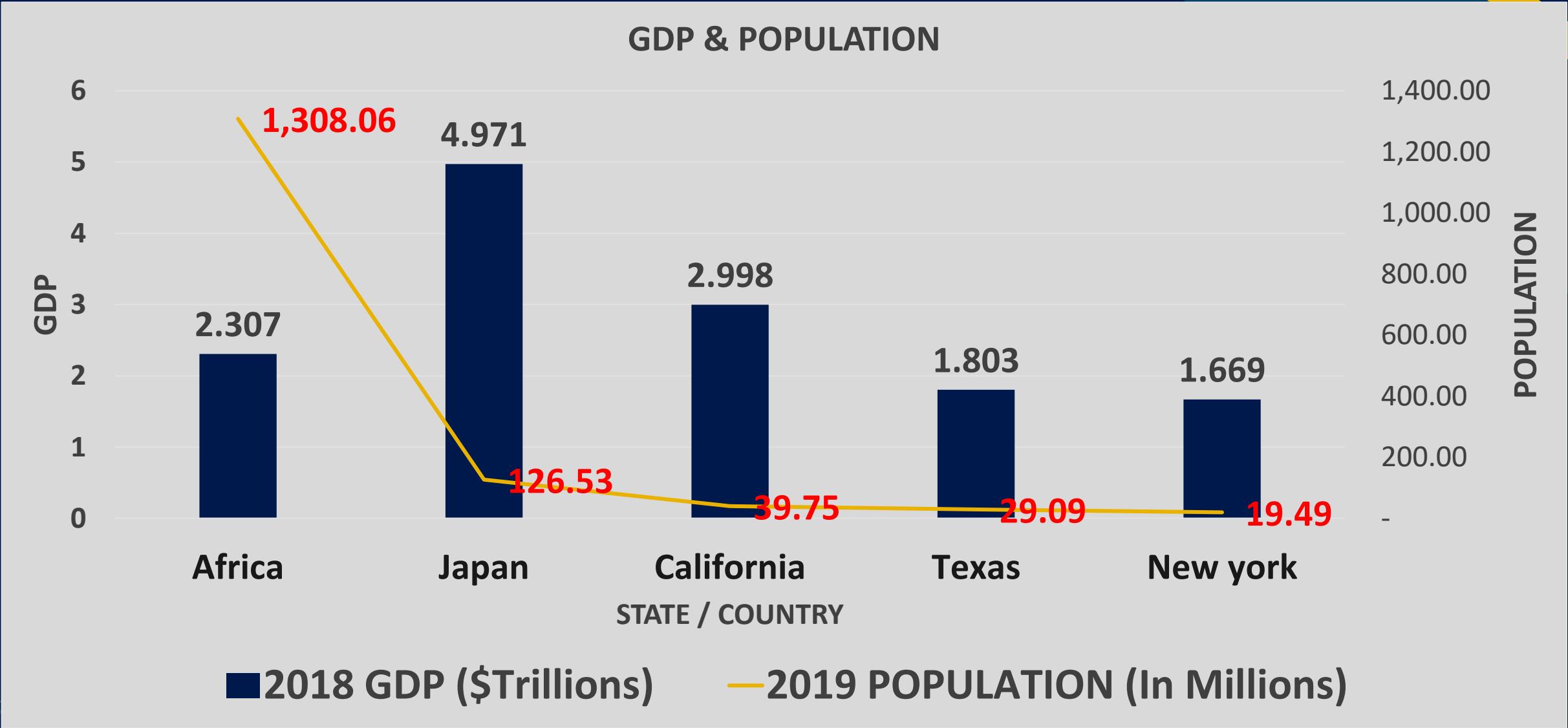


Chart by Martin Wheatcroft FCA. Source: IMF World Economic Outlook Database, October 2018. Local currency forecasts for GDP in 2019, converted into sterling at 1 January 2019 opening exchange rates: £1.00 = \$1.27 = €1.11 = C¥8.76 = J¥140 = ₹88 = BRL4.94 = C\$1.74 = ₩1,417 = P88 = A\$1.81.

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Challenge in Africa



WHY WE CARE

Challenge: High youth population

- >60% of Africa's population in 2019 is under the age of 35.
- According to the UN's demographic projections, the median age in Africa is going to be 19.8 in 2020.



African Youth

Home to the youngest population in the world

600
MILLION
under age **25**



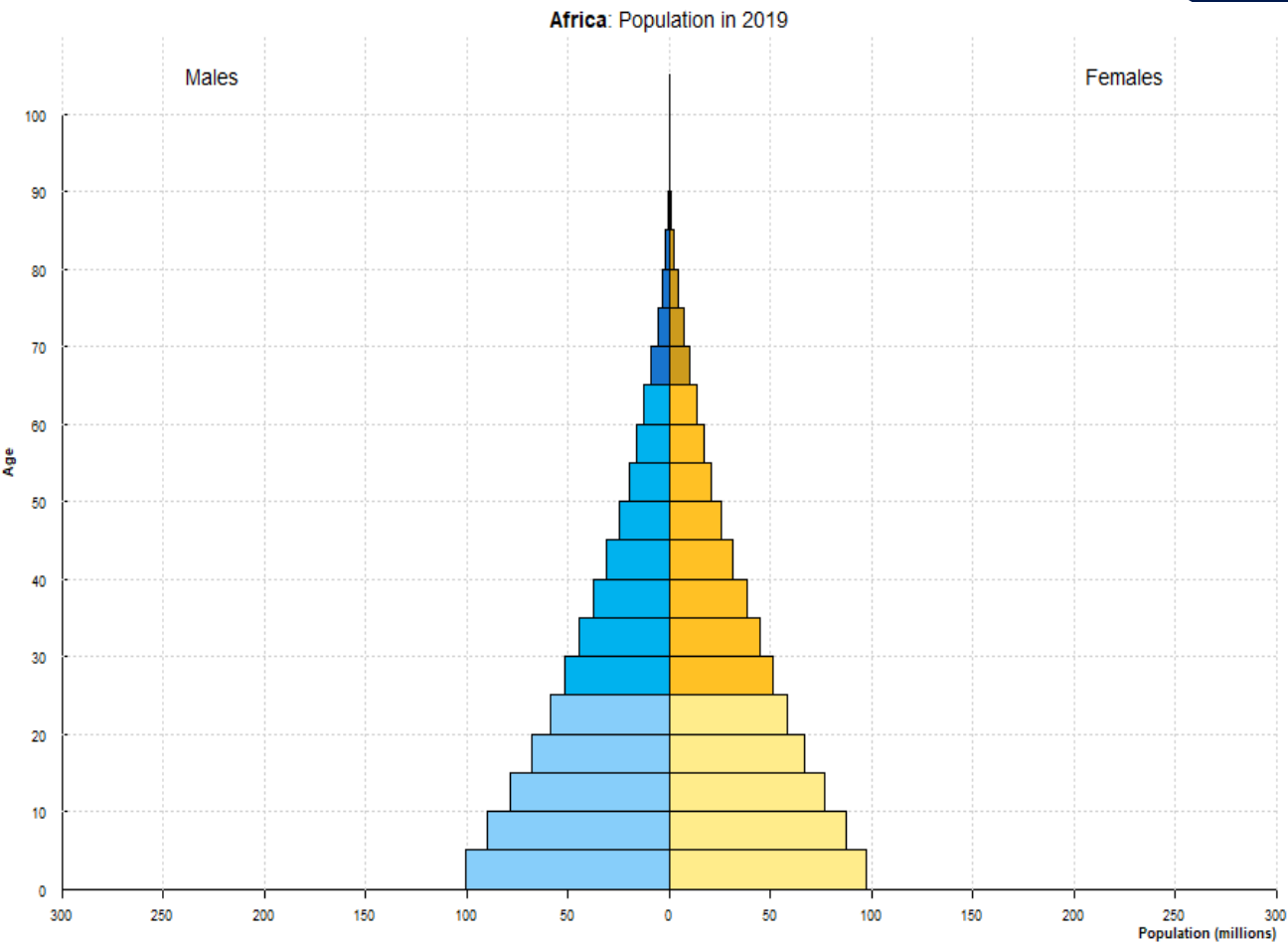
of youth in Africa
are unemployed or
vulnerably employed



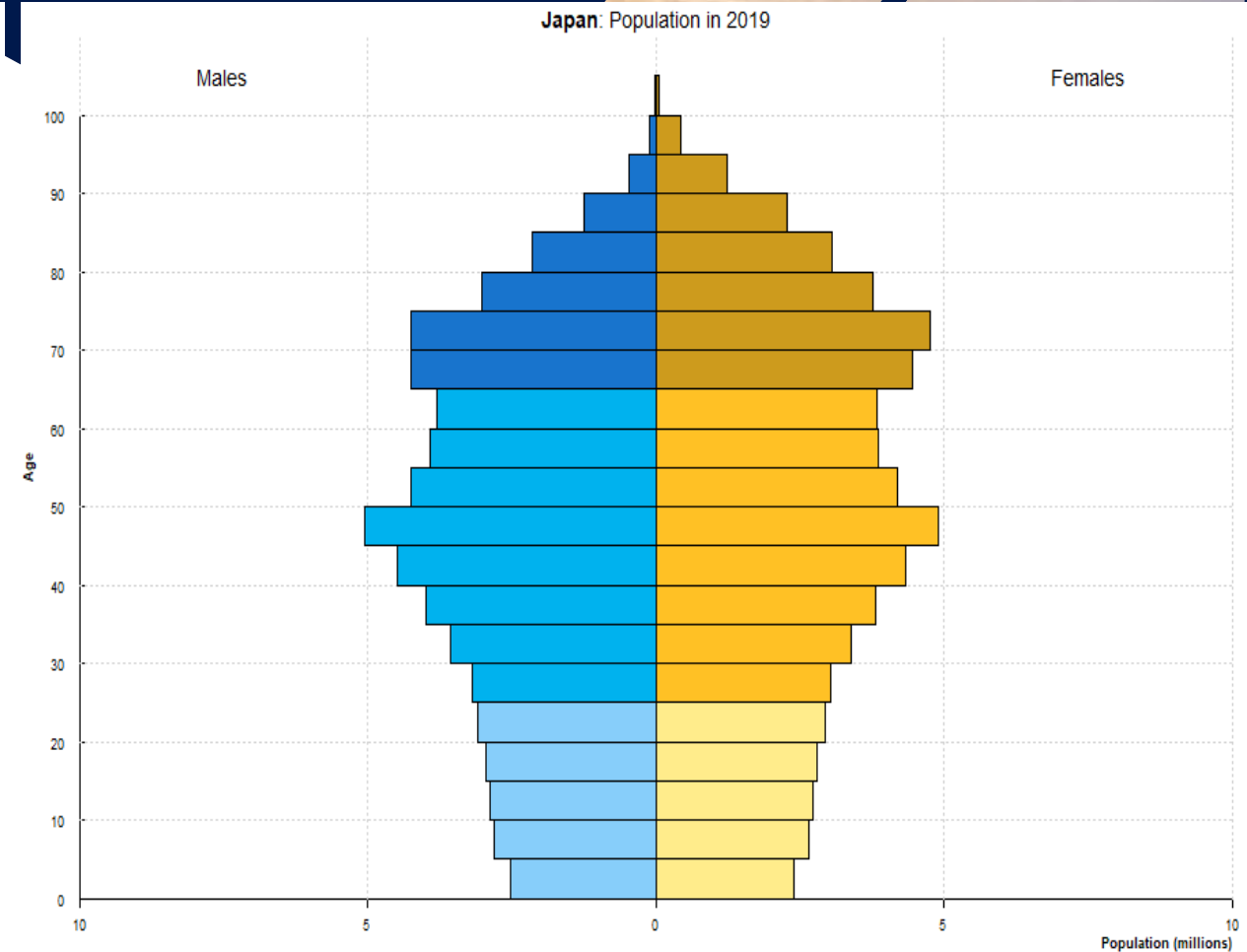
youth expected to
enter Africa's labour
market every year for
the next decade

WHY WE CARE

Challenge: High youth population



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United Nations, DESA, Population Division. *World Population Prospects 2019*. <http://population.un.org/wpp/>



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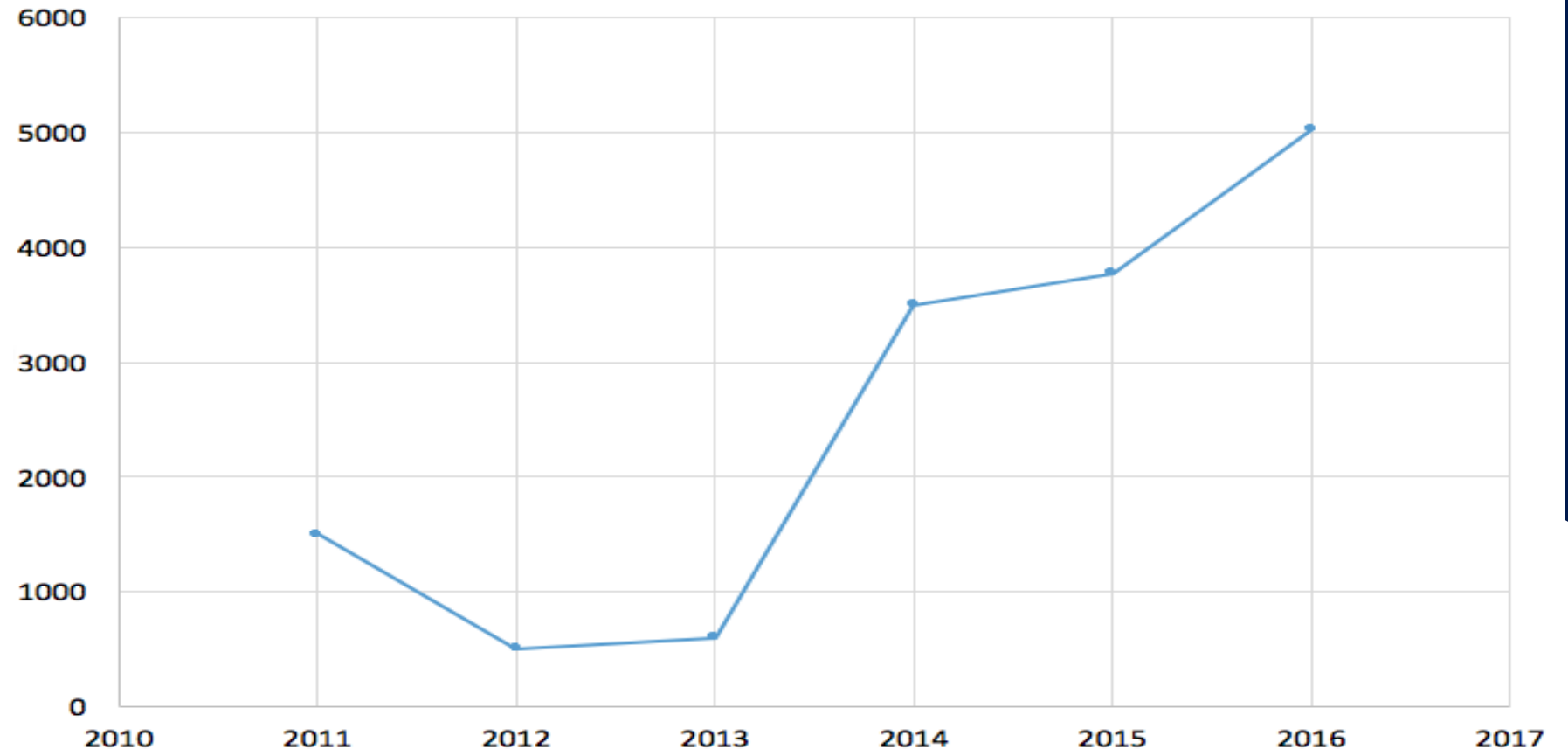
WHY WE EXIST

Challenge: High youth population

- Migrant vessel incidents on the Mediterranean sea

*Source UNHCR

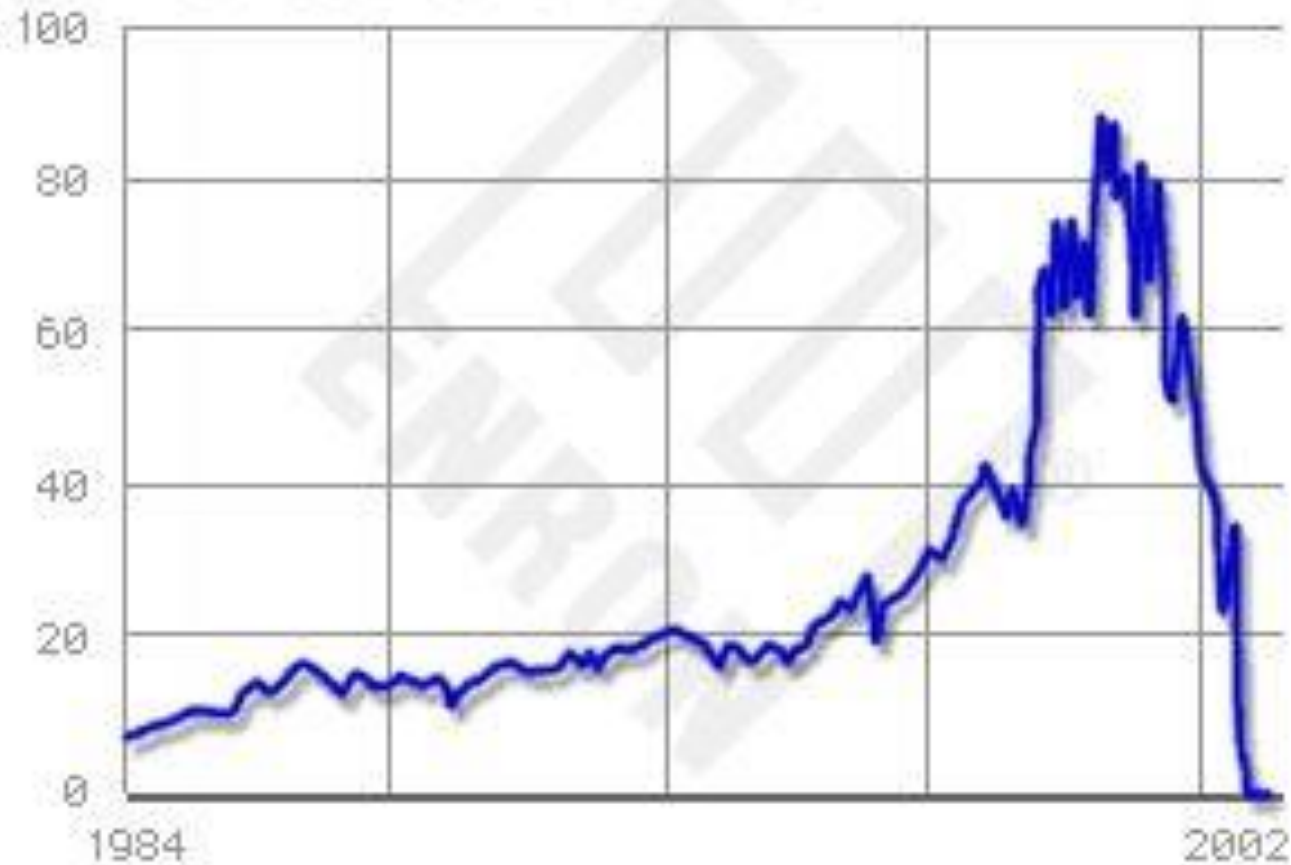
Refugee and Migrant Deaths at Sea (2011-2016)



Governance or Ethics?



The rise and fall of Enron



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Governance or Ethics?



- America's largest corporate bankruptcy
- Took 16 years to grow from \$10 Billion in assets to \$65 Billion in assets and 24 days to go bankrupt
- House of cards built upon oil fields
- 4000 employees lost their jobs, life savings and pensions
- During 2001, Enron shares fell from over US \$90.00 to US\$0.30.



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Governance or Ethics?



- Banking Industry – Chase Bank, Imperial
- Retail supermarkets – Uchumi, Nakumatt, Tusksys
- Sugar Industry – Mumias, Nzoia, Muhoroni



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Why Culture? FRC



A healthy culture both **protects** and **generates value**. It is therefore important to have a **continuous focus** on culture, rather than wait for a crisis.



Sir Winfried Bischoff

Chairman

Financial Reporting Council UK

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Why Culture? FRC



There needs to be a concerted effort to **improve trust** in the motivations and integrity of business.... A strong culture will endure in times of stress and **mitigate the impact**.

Sir Winfried Bischoff
Chairman
Financial Reporting Council UK



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Why culture? King IV



It is hoped that King IV will result in **quality governance** on the part of directors and help change corporate behavior by adopting integrated thinking. The **business landscape** has **changed** dramatically in the intervening years (between King III and IV) and **economic uncertainty has increased**, the need for **strong governance** has never become more apparent.

Mervyn King, Chairman, King Committee on Corporate Governance
November 2016

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Why culture? King IV



Governance outcomes specified:

- Ethical culture
- Good performance
- Effective control
- Legitimacy



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King IV Report



Leadership, Ethics and Corporate Citizenship Chapter 3 principles Outlined:

Principle 1 – the Governing Body should lead **ethically** and effectively (integrity, competence, responsibility, accountability, fairness and transparency);

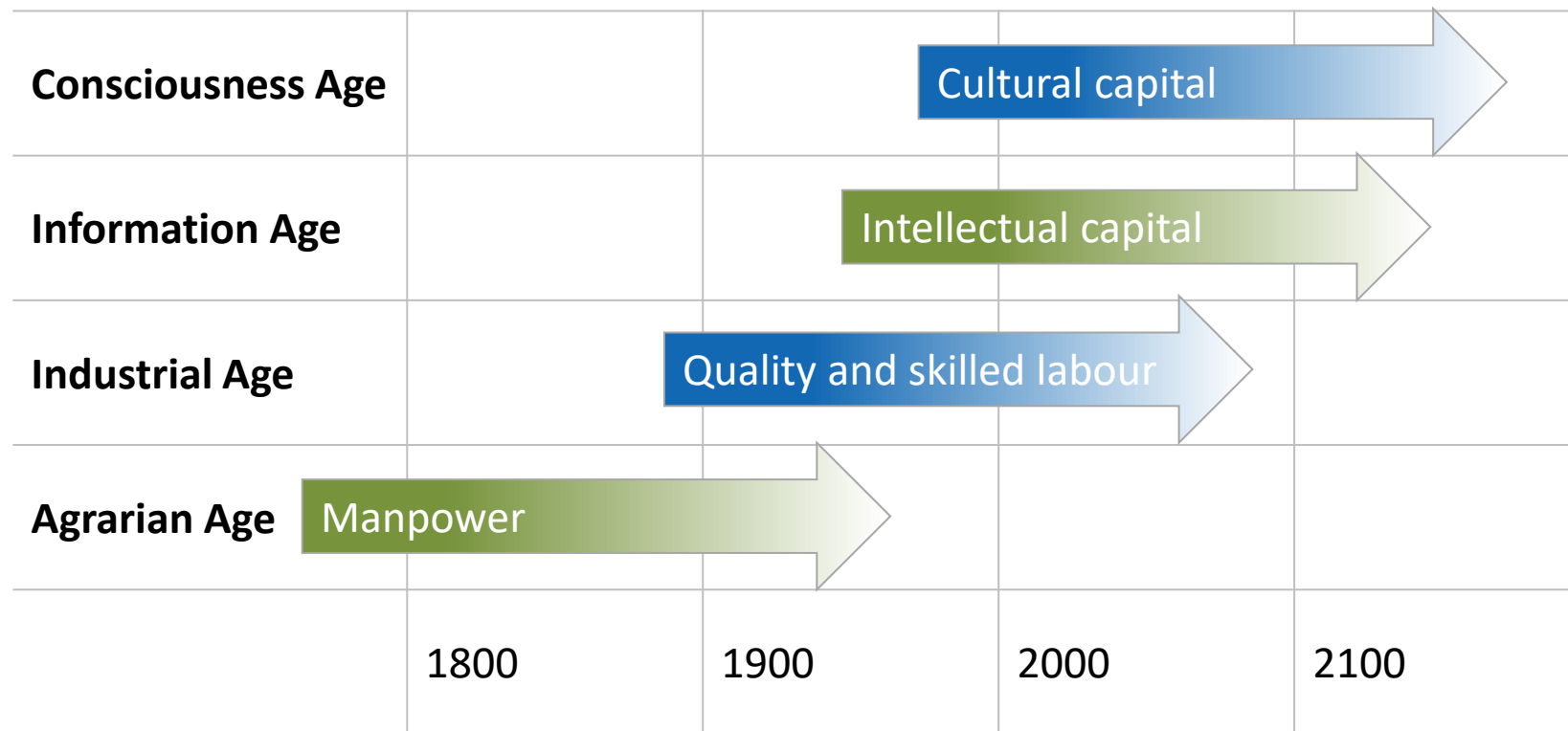
Principle 2 – should govern the ethics of the organization in a way that supports the establishment of an **ethical culture**;

Principle 3 – should ensure that the organization is, and is seen to be, a **responsible** corporate citizen

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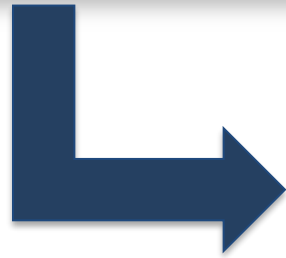
Evolution of Business Paradigms – Culture Capital

Culture is now a fundamental driver of operational and financial performance



Culture - Critical component to be managed

Cultural Capital is the new
frontier of competitive
advantage



Leaders influence culture.

Culture impacts risk, controls
and governance and
ultimately on success or
failure

Who you are and what you
stand for is important
Who were Enron leaders and
what did they stand for?

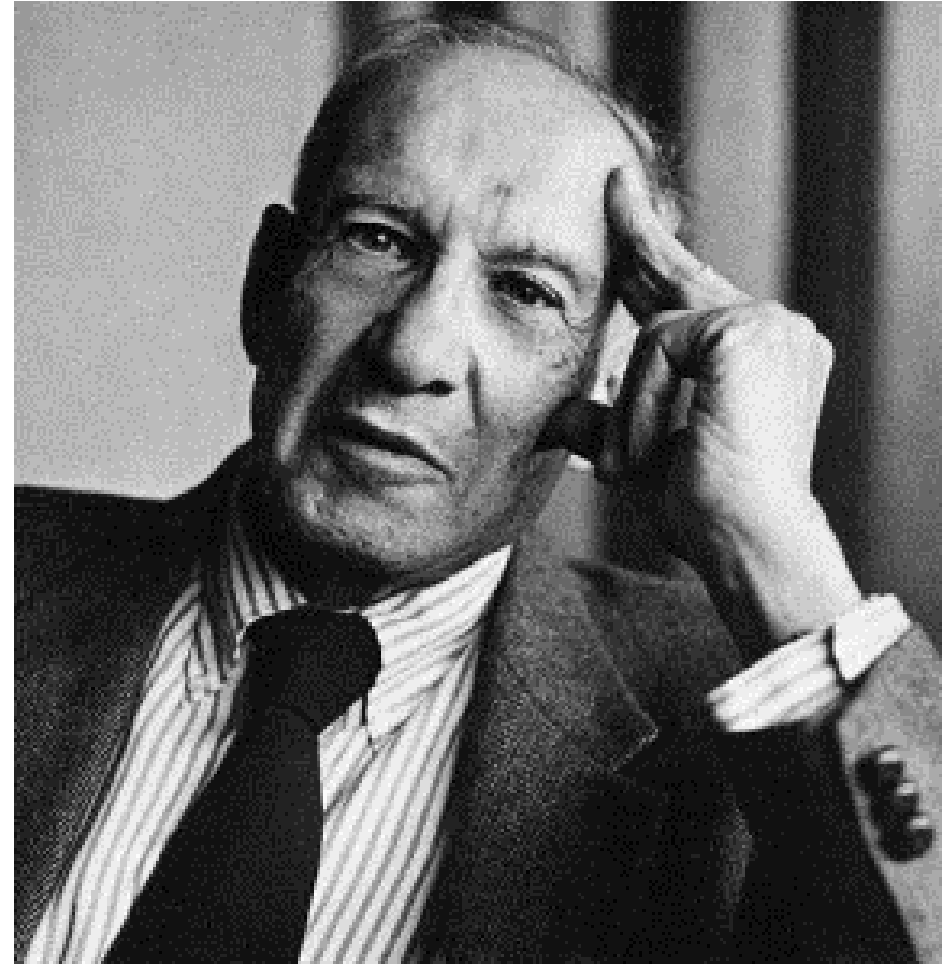
Insights on Culture: Defining culture

- Organisational culture expressed in the values and behavioural standards a specific organisation considers important.
- Organisational culture influences **behaviour**.
- Behaviour -“observable actions and forms of internal activity” Wijsman (2004)



Why culture should not be ignored

“Culture”
eats strategy
for breakfast.”
— Peter Drucker



Culture is often ignored.....

A whole system approach calls for actions above and below the line at the same time

OBJECTIVE
(STRATEGY)

**The way we say
we get things done**

Goals, vision, mission,
espoused values, structures,
policies, processes,
procedures, services/
products, behaviours

SUBJECTIVE
(CULTURE)

**The way we really
get things done**

Ideas, historic patterns,
lived values, attitudes,
unconscious beliefs,
assumptions, perceptions,
feelings, fears, personality
styles, leadership styles,
stories, myths, group norms



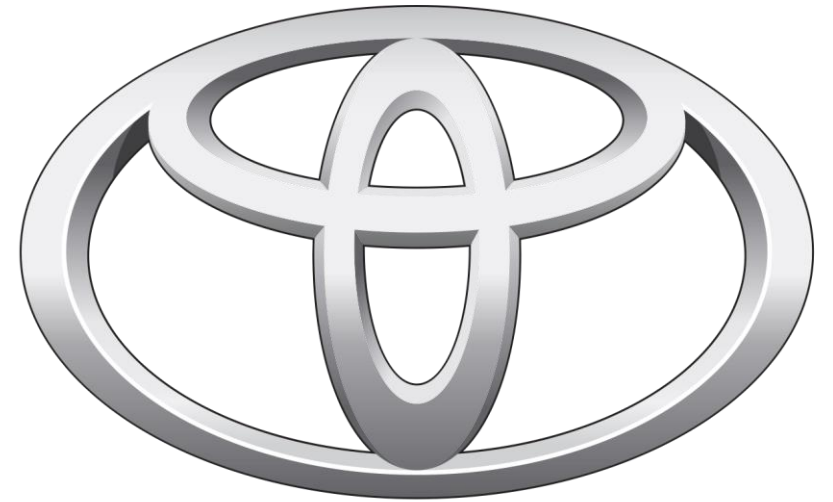
Example of a Great Organisation



Example: Toyota



- 1. Teamwork
- 2. Continuous improvement through learning
- 3. Quality
- 4. Secrecy



TOYOTA

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Example: Apple



1. Clarity – most loved, flown, profitable
2. Consistency – Customer requirements
3. Commitment – from the top
4. Communication- embed, reinforce, celebrate culture



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Example: Apple



1. Top-notch excellence
2. Creativity
3. Innovation
4. Secrecy
5. Moderate combativeness



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Board Needs to Understand where the Organization is



Lessons from Business Research

1. Firms of endearment – Long term sustainable growth based on stakeholder inclusion, passion and purpose – Stakeholder focused culture
 2. Best Top 40 Companies to work for – Good returns based on people Centered leadership culture
 3. Good to great – Good returns based on level 5 leadership (Humility plus professional will) – Character based leadership culture
- S&P 500 – 500 largest Public companies on the NYSE – Growth/Competency based culture

Lessons from Research: Firms of Endearment



Rajendra S. Sisodia, David B. Wolfe, and Jagdish N. Seth, **Firms of Endearment: The Pursuit of Purpose and Profit** (Wharton School of Publishing, 2007)

Lessons from Research

Best companies to work for in N. America



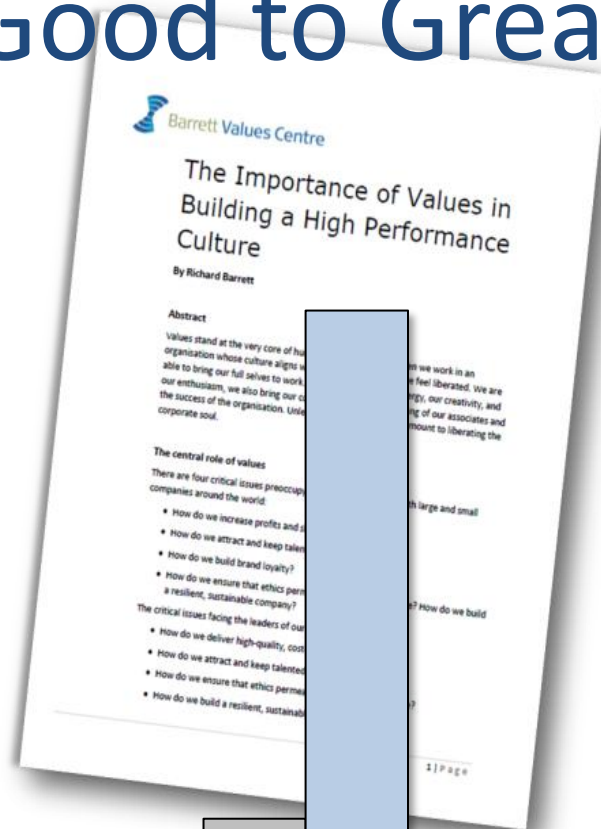
Top 40 publicly traded
Best Companies to Work
for in North America

**Average annual
Return 16.39%**

S&P 500

**Average annual
Return 4.12%**

Firms of Endearment vs Good to Great



Way forward



- 1. RECOGNISE THE VALUE OF CULTURE – Your source of competitive advantage**
- 2. DEMONSTRATE LEADERSHIP – CEO and management must embody desired culture**
- 3. BE OPEN AND ACCOUNTABLE – open in engaging and reporting to stakeholders**
- 4. EMBED AND INTEGRATE – Values to inform behaviour**

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Way forward



5. **ALIGN VALUES AND INCENTIVES** – Link to performance management and reward system
6. **ASSESS, MEASURE AND ENGAGE** – evaluate and report on culture
7. **EXERCISE STEWARDSHIP** – Take a serious interest in culture development

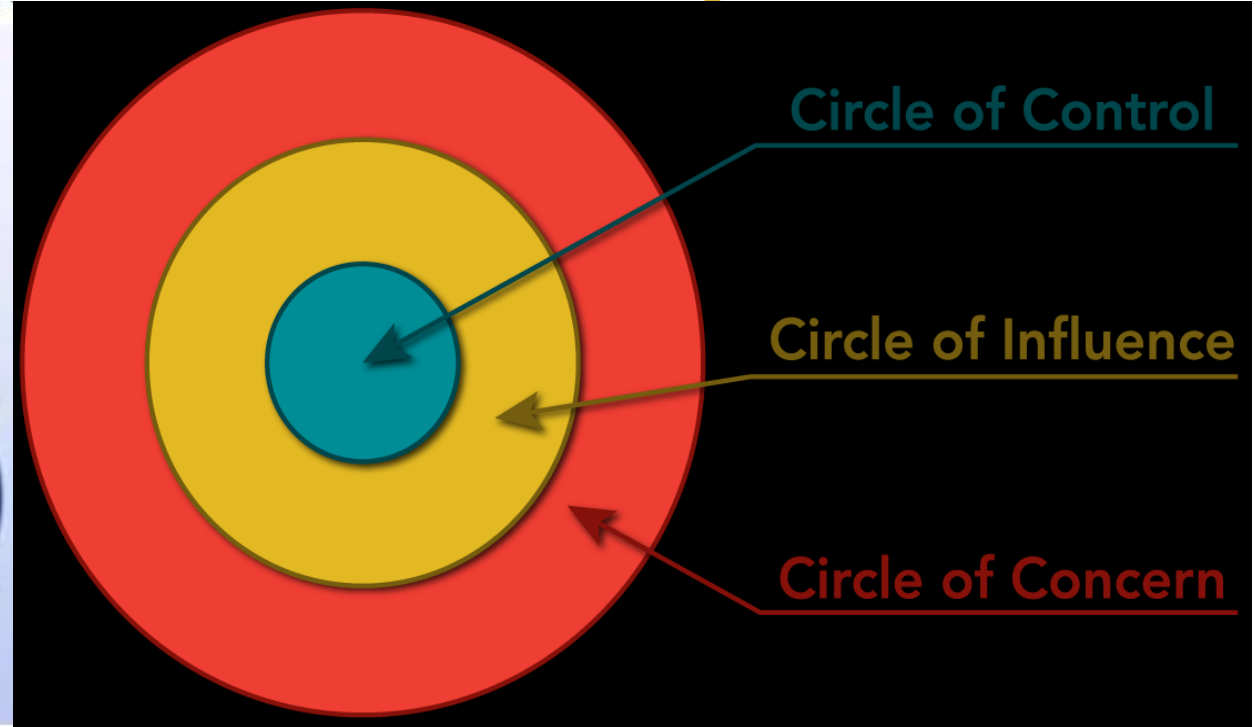
Adapted from financial reporting Council suggestions (2016)

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Thank You



Go For It



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